

Capital costs related to replacement beds are not allowable unless the facility received a Certificate of Need or letter of nonreviewability for the replacement beds. To be allowable, the replacement beds must physically replace beds in the same facility and the capital costs related to the beds being replaced must have been recognized as allowable.

In addition to the above criteria, to receive payment for capital costs related to new, additional or replacement beds, the project must have been substantially implemented within the effective period of the original Section 1122 approval or the original Certificate of Need, including one six-month extension.

Costs Excluded from the Final Audited Per Diem Rate Limit

The Department will exclude certain construction costs from the final audited per diem rate limit in accordance with paragraphs (A) and (B) below.

(A) Depreciation and interest costs eligible for exclusion from the per diem rate limit must be attributable to:

- (1) increases in a hospital's allowable depreciation and interest costs for a project that began operations during the year being audited;
- (2) a project that has been subject to Certificate of Need review and has been approved for a Certificate of Need; and
- (3) a project that is related to patient care.

(B) To qualify to have these costs excluded from the limit, a hospital must demonstrate that:

- (1) its rate of increase in overall audited costs exceeds 15%; and
- (2) the costs specified in paragraph (A) above result in a rate of increase in allowable depreciation and interest that exceeds the hospital's rate of increase in net operating costs.

State Operated Psychiatric Hospitals and Facilities

The Department of Public Welfare claims the Federal Share of reimbursement for:

- (1) Inpatient psychiatric hospital services for individuals age 65 and older, and
- (2) Inpatient psychiatric facility services for individuals under age 21.

The claim for the Federal Share for each eligible patient is based on the established per diem rate subject to an annual adjustment to costs.

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES-INPATIENT HOSPITAL CARE
STATE-OPERATED PSYCHIATRIC HOSPITALS AND FACILITIES (CONT.)

Allowable Cost Standards

In identifying items of allowable costs for state-operated psychiatric hospitals and facilities, Pennsylvania's Cost Apportionment Manual for State Mental Hospitals and Mental Retardation Centers (Manual) will be used where applicable. If the manual does not address a particular cost, the federally approved Departmental Cost Allocation Plan/Statewide Cost Allocation Plan (DCAP/SWCAP) will be followed. If none of these addresses a particular cost, Medicare full cost principles will be used.

Disproportionate Share Payment Adjustment

The Department provides additional funding for state-operated psychiatric hospitals that serve a disproportionate number of low income patients with special needs.

- (a) A state-operated psychiatric hospital is eligible for a disproportionate share payment if its low income utilization is in excess of 25 percent.
- (b) When the low income utilization rate exceeds 25 percent, the Department shall employ a percentage payment adjustment which is determined by multiplying the percentage of the facility's low income utilization rate which is in excess of 25 percent by a factor of 9.5.
- (c) The percentage payment adjustment shall be multiplied by the Medicaid annual payment amount for inpatient hospital services for the state fiscal year ending two years prior to the year of a disproportionate share payment. The resulting amount is the disproportionate share payment.
- (d) The Commonwealth's aggregate disproportionate share hospital payments will not exceed its disproportionate share base allotment computed by HCFA.
- (e) Disproportionate share payments for state-operated psychiatric hospitals shall be determined quarterly.

DISPROPORTIONATE SHARE PAYMENTS

Part I. General Policy

The Department provides additional funding for in-state inpatient hospital providers which serve a disproportionate share of Medical Assistance recipients, or Title XIX or low-income patients, according to the provisions of Section 1923 of the Social Security Act. Hospitals and units which can qualify for disproportionate share payments under this part are acute care general hospitals; psychiatric, medical rehabilitation, and drug and alcohol rehabilitation units of acute care general hospitals; freestanding rehabilitation hospitals; and private psychiatric hospitals.

The Department will determine, effective January 1, 1996, the hospitals that qualify for disproportionate share payments, and the amounts of such payments, according to the standards described in this section. The Department will likewise make this determination, effective January 1, 1997. Days of care included in the eligibility determination include MA-HIO days of care, MA-HMO days of care, Medicaid administrative days, and days of care provided to recipients from other states' Medicaid programs.

No hospital may be defined as eligible for disproportionate share payments unless it has a Title XIX utilization rate of one percent or greater. In conformity with OBRA 93, effective July 1, 1995, the Department will establish disproportionate share payments no greater than each hospital's unreimbursed costs for services rendered to Title XIX patients and uninsured patients.

(a) To qualify as a disproportionate share hospital, the hospital must meet one of the conditions set forth under subsection (b) and meet any one of the following conditions:

(1) Have a percentage of Title XIX Medical Assistance days to total days equal to or greater than one standard deviation above the mean for all in-state hospitals;

(2) Have a low-income inpatient utilization rate exceeding 15%;

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(3) Be an acute care general hospital, or distinct part rehabilitation or psychiatric unit thereof, defined by Medicare as a rural hospital or sole community hospital and be at or above the 75th percentile in the ratio of Medical Assistance acute care cases to total acute care cases in a ranking of all in-state hospitals;

(b) To qualify as a disproportionate share hospital, the hospital must meet at least one of the following conditions:

(1) Be identified as a children's hospital;

(2) Have at least two physicians with staff privileges at the hospital who have agreed to provide obstetric services to individuals who are entitled to such services under the Medical Assistance Program; or

(3) Be identified as a hospital that did not offer nonemergency obstetric services to the general population on or after December 21, 1987.

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Part I. Disproportionate Share Payments to Title XIX General Hospitals.

(a) Acute care hospitals that meet the conditions in Part I (a)(1) receive a rural disproportionate share percentage ranging from 15 percent to 15 percent. Qualifying hospitals are ranked from high to low based on their ratio of total Title XIX days to total days. The qualifying hospital with the highest ratio of Title XIX days to total days is assigned a disproportionate share percentage of 15 percent. For each other hospital qualifying under this section, the disproportionate share percentage is:

(1) 1 percent, plus -

(2) 13 percent multiplied by a fraction: the numerator of which is the ratio of Title XIX days to total days of the qualifying hospital minus the ratio of Title XIX days to total days of the lowest hospital on the list of all such qualifying hospitals; and the denominator of which is the ratio of Title XIX days to total days of the second to highest hospital on the list of all such qualifying hospitals, minus the ratio of Title XIX days to total days of the lowest hospital on the list of all such qualifying hospitals.

(b) Acute care hospitals that meet the conditions in Part I (a)(3) receive a rural disproportionate share percentage ranging from 1 percent to 10 percent. Qualifying hospitals are ranked from high to low based on their ratio of Title XIX days to total days. The qualifying hospital with the highest ratio of Title XIX days to total days is assigned a disproportionate share percentage of 10 percent. For each other hospital qualifying under this section, the disproportionate share percentage is:

(1) 1 percent, plus -

(2) 8 percent multiplied by a fraction: the numerator of which is the ratio of Title XIX days to total days of the qualifying hospital minus the ratio of Title XIX days to total days of the lowest hospital on the list of all such qualifying hospitals; and the denominator of which is the ratio of Title XIX days to total days of the second to highest hospital on the list of all such qualifying hospitals, minus the ratio of Title XIX days to total days of the lowest hospital on the list of all such qualifying hospitals.

(c) Hospitals that qualify under both the section (a) and section (b) will receive the higher of percentages, but will not receive both percentages.

(d) The Department prospectively calculates the annual disproportionate share payment amount for qualifying acute care general hospitals by multiplying the disproportionate share percentage determined under sections (a)-(c) by the hospital's projected Title XIX and general assistance income for acute care cases during the fiscal year.

(e) Annual payments are divided into twelve monthly installments.

(f) Disproportionate share payments to acute care general hospitals are subject to the limitations set forth under Part V.

(g) Effective January 1, 1997, the payment calculated under (d) will include both fee-for-service and managed care cases.

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Part III. Disproportionate Share Payments to Hospitals and Hospital Units Paid Under the Cost Reimbursement Payment System

(a) For hospitals and hospital units paid under the cost reimbursement payment system that meet the conditions in Part I (a)(1), (a)(2) or distinct part rehabilitation units qualifying under Part I (a)(3), the Department prospectively calculates a disproportionate share payment percentage as follows:

- (1) Array the qualifying hospitals and hospital units.
- (2) Subtract from the qualifying provider's Title XIX days to total days percentage, the Title XIX days to total days percentage of the lowest qualifying hospital;
- (3) Divide this amount by the difference between the Title XIX days to total days percentages of the highest and lowest qualifying hospitals;
- (4) Multiply the amount determined in (3) by 0.09;
- (5) Add 0.01 to the amount determined in (4).

(b) The Department determines the interim disproportionate share payment amount by multiplying the disproportionate share payment percentage determined in (a) by projected Title XIX and general assistance income for the provider for the fiscal year. Annual interim payments are divided into twelve monthly installments.

(c) The final disproportionate share payment for hospitals or units qualifying under (a) of this part is determined by multiplying the facility's percentage determined under (a), the facility's final audited per diem rate for the time period, and the facility's audited number of Title XIX and general assistance inpatient days for the time period.

(d) The Department will reconcile the difference between interim and final disproportionate share payment amounts calculated for each time period.

(e) Disproportionate share payments to hospitals and hospital units paid under the cost reimbursement system are subject to the limitations set forth under Part V.

(f) Effective January 1, 1997, the disproportionate share payments will be based on fee-for-service and managed care days.

Part IV Disproportionate Share Payments for Private Psychiatric Hospitals and Psychiatric Units Which are Subject to the Prospective Psychiatric Payment System

Private psychiatric hospitals and distinct part psychiatric units of acute care general hospitals that meet the conditions in Part I (a)(1) or (a)(2), or distinct part psychiatric units qualifying under Part I (a)(3) are assigned a disproportionate share percentage ranging from 1 percent to 10 percent. Qualifying providers are ranked from high to low based on total facility ratio of Title XIX days to total days is assigned a disproportionate share percentage of 10 percent. For each other provider qualifying under this section, the disproportionate share percentage is:

(1) 1 percent, plus

(2) 8 percent multiplied by a fraction: the numerator of which is the ratio of Title XIX days to total days of the qualifying provider minus the ratio of Title XIX days to total days of the lowest provider on the list of all such qualifying providers; and the denominator of which is the ratio of the Title XIX days to total days of the second to highest provider on the list of all such qualifying providers, minus the ratio of Title XIX to total days of the lowest provider on the list of all such qualifying providers.

The Department prospectively calculates the annual disproportionate share payment amount for the qualifying psychiatric provider by multiplying the disproportionate share percentage obtained in this part by the provider's projected Title XIX and general assistance income for psychiatric days during the fiscal year.

Annual payments are divided into twelve monthly installments.

Disproportionate share payments for private psychiatric hospitals and psychiatric units paid under the prospective psychiatric payment system are subject to the limitations set forth under Part V.

Effective January 1, 1997, the disproportionate share payments will be based on fee-for-service and managed care days

Part V Aggregate Limits to Inpatient Disproportionate Share and Direct Medical Education

For the period January 1, 1996 through December 31, 1996, the Department shall distribute to providers that are eligible for direct medical education payments and/or disproportionate share payments the aggregate, annualized amount of \$121 million.

For the period January 1, 1997 through December 31, 1997, the Department shall distribute to providers that are eligible for direct medical education payments and/or disproportionate share payments the aggregate, annualized amount of \$175 million.

In the event that hospital costs were going to exceed the State allotment for DSH (or the specified funding level for DME), all qualifying hospitals would receive a proportional reduction in their payments, to prevent this result for occurring.

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ADDITIONAL DISPROPORTIONATE SHARE PAYMENTS

Effective March 1, 1998, the Department will make an additional disproportionate share payment to certain hospitals which render a high volume of uncompensated care or charity care and which the Department has determined have experienced a significant reduction in revenue as a result of changes to the Medical Assistance Program eligibility regulations.

In addition to meeting the criteria set forth in Part I of this state plan, for a hospital to qualify for an enhanced disproportionate share payment, the hospital must meet one of the following criteria:

1. Based on the Department's analysis of the effect of changes to G/MNO eligibility, the hospital lost in excess of \$3.2 million in annual net patient revenue and the hospital received less than \$1.8 million in annual direct medical education payments in Fiscal Year 1996-97; or
2. Based on the Department's analysis of the effect of changes to G/MNO eligibility, the hospital lost in excess of \$3.2 million in annual net patient revenue, the hospital received annual direct medical education payments of over \$1.8 million in Fiscal Year 1996-97 and the hospital's loss of total annual medical assistance revenue is less than 15 percent; or
3. Based on the Department's analysis of the effect of changes to G/MNO eligibility, the hospital lost in excess of \$2.5 million in annual net patient revenue with a percentage loss of net patient revenue exceeding 6 percent; or
4. The hospital was eligible for disproportionate share as a rural hospital in Calendar Year 1997 as defined under the Department's disproportionate share payment policy (Page 16 of Attachment 4.19A).

Payment will be made to qualifying hospitals based on the ratio of their revenue reduction to the total revenue reduction of all qualifying hospitals. This ratio is then multiplied by the total amount of funds available under this enhanced disproportionate share payment policy.

Effective January 15, 1999, the Department will make an additional disproportionate share payment to certain hospitals which render charity care in excess of the average inpatient charity care cost. In addition to meeting the criteria set forth in Part I of this state plan, for a hospital to qualify for the charity care component, the hospital must meet the following:

- the hospital must be enrolled in the MA Program as an Acute Care General Hospital; and
- the hospital's inpatient charity care costs exceeds \$698,501, the Fiscal Year 1995-96 Statewide average inpatient charity care cost. The charity care cost is derived from the Fiscal Year 1995-96 Financial Report for Hospitals and Hospital-Health Care Complex under the Medical Assistance Program (MA 336) as submitted by the hospitals and reviewed by the Department.

Payment will be made to qualifying hospitals based on each hospital's percentage of charity care cost to the total charity care costs of all qualifying hospitals. Payment is determined by multiplying the hospital-specific percentage by the total funds available under the charity care component with a maximum payment per hospital of \$750,000.

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